

Message Text

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ACTION NEA-13

INFO OCT-01 EUR-25 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03

SS-20 USIA-15 SAM-01 AID-20 EB-11 CIEP-02 TRSE-00

STR-08 OMB-01 CEA-02 COME-00 FRB-02 XMB-07 OPIC-12

LAB-06 SIL-01 FEA-02 INT-08 SCI-06 DRC-01 /206 W

----- 065974

R 151255Z FEB 74

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 546

INFO AMEMBASSY LONDON

AMEMBASSY NEW DELHI

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EO 11652: N/A

TAGS: EAID, ECON, ENRG, CE

SUBJ: PRIME MINISTER DISCUSSES SRI LANKA'S ECONOMIC SITUATION

REF COLOMBO 427 STATE 29824

1. SUMMARY: PM BANDARANAIKE IS CONCERNED ABOUT INABILITY OF HER GOVERNMENT TO OBTAIN ENOUGH RICE THROUGH GOVERNMENT'S PADDY MARKETING BOARD TO PROVIDE HALF MEASURE OF FREE RICE BETWEEN NOW AND SPRING HARVEST IN APRIL. SHE HAS BEEN ABLE TO KEEP LID ON SITUATION TO DATE BUT IS WORRIED ABOUT POSSIBILITY URBAN WORKERS WILL STIR UP SERIOUS TROUBLE. SKYROCKETING OIL PRICES HAVE ADDED CRUSHING BURDEN TO SRI LANKA'S ECONOMY BUT, SHE SAID, TO DATE NON-OIL PRODUCING DEVELOPING COUNTRIES HAVE LACKED POWER TO INDUCE OIL PRODUCERS TO PROVIDE CONCESSIONAL ECONOMIC ASSISTANCE. PM HOPES US WILL PLEDGE SUBSTANTIAL ASSISTANCE AT THIS YEAR'S AID GROUP MEETING AND IS ANXIOUS TO RECEIVE MORE PL 480 WHEAT FLOUR. END SUMMARY.

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2. I CALLED ON PM BANDARANAIKE 14 FEB AT HER REQUEST TO DISCUSS SRI LANKA'S AID REQUIREMENTS AND TO RECEIVE COPY OF HER LETTER TO PRES NIXON (DATED 11 FEB) REQUESTING "SUBSTANTIAL ASSISTANCE" FROM USG AT FORTHCOMING AID GROUP MEETING. LETTER OF TYPE BEING SENT PRESIDENT HAS BECOME ANNUAL AFFAIR AND HAS BEEN DISPATCHED VIA SRI LANKA EMBASSIES TO HEADS OF GOVERNMENT OF DONOR COUNTRIES, WITH COPIES BEING GIVEN TO RESIDENT AMBASSADORS AND HIGH COMMISSIONERS WHO HAVE BEEN CALLED IN SEPARATELY BY PM. MY APPOINTMENT WAS FOR ONE HALF HOUR BUT CONVERSATION EXTENDED FOR ABOUT FULL HOUR THEREFORE GAVE ME OPPORTUNITY TO RAISE DIEGO GARCIA (REPORTED SEPTTEL). H.A. GUNASEKERA, SECRETARY OF MINISTRY OF PLANNING AND ECONOMIC AFFAIRS, AND AUSTIN FERNANDO, DIRECTOR OF EXTERNAL RESOURCES IN SAME MINISTRY, WERE PRESENT DURING DISCUSSION AID MATTERS.

3. PM OPENED CONVERSATION BY EXPRESSING DEEP CONCERN OVER SRI LANKA GOVERNMENT'S INABILITY THUS FAR TO PERSUADE FARMERS TO SELL THEIR PADDY TO STATE-OWNED PADDY MARKETING BOARD (PMB). WIDE DISCREPANCY BETWEEN 1973 AND 1974 COLLECTIONS BY PMB IN PART COULD BE EXPLAINED BY GSL'S OCT 1 DECISION TO CUT FREE RICE RATION IN HALF, RESULTING IN SHARP RICE IN FREE MARKET OR "BLACKMARKET" PRICE OF RICE. GOVERNMENT COULD NOT AFFORD TO RAISE PURCHASE PRICE OF RICE TO MUCH ABOVE CURRENT RS 25 PER BUSHEL LEVEL AND, EVEN IF IT COULD AFFORD IT, IT WOULD RUN INTO TROUBLE WITH WORLD BANK FOR BACKSLIDING ON FOOD SUBSIDY. IT WAS POLITICALLY IMPERATIVE FOR GOVERNMENT TO MAINTAIN FREE RICE RATION BUT MANY FARMERS WERE REFUSING TO COOPERATE AND RICE FROM FOREIGN SOURCES, SUCH AS PAKISTAN, WAS PROHIBITIVELY EXPENSIVE. PM ASKED WHETHER USG COULD PROVIDE ANY RICE. I SAID I WAS NOT FAMILIAR WITH US RICE EXPORT PICTURE BUT MY IMPRESSION WAS THAT EXISTING US COMMITMENTS AND COMMERCIAL SALES WOULD PRECLUDE ANY RICE FOR SRI LANKA AT THIS TIME.

4. PM WENT ON TO SAY NEXT TWO MONTHS WERE CRITICAL. MAHA (MAIN) HARVEST THIS YEAR WOULD BE LATE AND HER MAIN CONCERN WAS TO FIND ENOUGH RICE TO TIDE GOVERNMENT OVER UNTIL APRIL. NOTING PROBLEMS CONFRONTING MRS. GANDHI, SHE SAID "THANK GOD THINGS ARE NOT THAT BAD HERE YET," BUT ADDED THAT SITUATION COULD SUDDENLY GET OUT OF CONTROL IF URBAN WORKERS BECAME VIOLENT IN FACE OF FOOD SHORTAGES AND PRICE RISES. ECONOMY SEEMED LIMITED OFFICIAL USE

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TO BE GETTING ON ITS FEET IN LATE 1973 BUT ENERGY CRISIS WAS LATEST BLOW TO FALL ON SRI LANKA. ARABS HAD AGREED PROVIDE GSL WITH OIL BUT WHAT WAS REALLY NEEDED WAS ECONOMIC ASSISTANCE TO COMPENSATE FOR OIL PRICE RISES.

5. I AGREED AND RECALLED THAT SECTY KISSINGER HAD NOTED THAT OIL PRODUCERS, BY RAISING PRICES, HAD IN ONE DAY WIPED OUT EFFECT OF ALL ECONOMIC ASSISTANCE

FROM AID DONOR COUNTRIES. USG WAS VERY CONSCIOUS OF PLIGHT OF NON-OIL PRODUCING DEVELOPING COUNTRIES AS REFLECTED MOST RECENTLY IN SECTYS REMARKS AT OPENING OF WASHINGTON ENERGY CONFERENCE. WE BELIEVED DEVELOPED COUNTRIES SHOULD NOT CUT THEIR AID PROGRAMS AND EXECUTIVE BRANCH PLANNED MAKE EVERY EFFORT TO URGE CONGRESS TO RESTORE US CONTRIBUTION TO IDA. AT SAME TIME WE BELIEVED OIL PRODUCING NATIONS SHOULD PROVIDE THEIR SHARE OF ASSISTANCE FOR DEVELOPMENT, EITHER BILATERALLY OR THROUGH INTERNATIONAL ORGANIZATIONS.

6. IN REPLY TO MY QUESTION AS TO HOW NON-OIL-PRODUCING LDC'S COULD BRING PRESSURE ON PRODUCERS, PRIME MINISTER REPLIED THAT THIS WAS DIFFICULT BECAUSE NON-OIL PRODUCERS WERE TOO WEAK AND DISORGANIZED. AS GSL HAD LEARNED AT GEORGETOWN MEETING OF NON-ALIGNED FOREIGN MINISTERS, ARABS AND AFRICANS DEMONSTRATED COHESION ON MOST ISSUES BUT OTHER NON-ALIGNED COUNTRIES OFTEN DID NOT. WHEN SHE HAD BEEN IN NEW DELHI PREVIOUS MONTH WITH PRESIDENT TITO AND PRIME MINISTER GANDHI, THEY HAD DISCUSSED POSSIBILITY OF PRESSING CLAIMS OF NON-OIL-PRODUCING LDC'S BEFORE OIL PRODUCERS. HOWEVER, ARAB LEAGUE REP IN INDIA HAD MADE PUBLIC STATEMENT TO EFFECT THEY HAD NO BUSINESS DISCUSSING OIL SEPARATE FROM OTHER ECONOMIC ISSUES AFFECTING NON-ALIGNED COUNTRIES.

7. MRS BANDARANAIKE SAID THERE MIGHT BE SOME OPPORTUNITY TO DISCUSS OIL ISSUE AT MEETING OF NON-ALIGNED CONFERENCE COMMITTEE, SCHEDULED TO CONVENE AT FOREIGN MINISTERS LEVEL IN ALGIERS IN LATE MARCH. SHE HAD ASKED FELIX DIAS BANDARANAIKE TO REPRESENT GSL AT THAT MEETING AND HOPEFULLY SOME WAY TO ASSIST NON-OIL PRODUCERS WOULD LIMITED OFFICIAL USE

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EMERGE BUT SHE WAS NOT SANGUINE ABOUT PROSPECTS.

8. PRIME MINISTER THEN HANDED ME COPY OF HER LETTER TO PRESIDENT NIXON, STRESSING IMPORTANCE GSL ATTACHED TO AID GROUP MEETING THIS YEAR. UNLIKE SITUATION IN EARLY 1973, THERE NOW DID NOT APPEAR TO BE ANY RELUCTANCE ON PART OF WORLD BANK TO CONVENE SUCH A MEETING. BANK TEAM WHICH HAD VISITED SRI LANKA IN DECEMBER AND RECENT IMF TEAM HAD BEEN IMPRESSED WITH POLITICALLY DIFFICULT MEASURES GSL HAD TAKEN TO COPE WITH BOTH FOOD SITUATION AND ENERGY CRISIS. HOWEVER, EVEN IF BANK PROVIDED ASSISTANCE, AND IMF APPROVED STANDBY, MUCH ADDITIONAL AID WOULD BE NEEDED FROM DONOR COUNTRIES, INCLUDING UNITED STATES.

9. I RECALLED THAT USG HAD BEEN STRONGLY IN FAVOR OF AID GROUP MEETING LAST YEAR AND SAME WAS CASE THIS YEAR AND BANK AND FUND REPORTS, IF FAVORABLE, SHOULD CREATE POSITIVE ENVIRONMENT FOR THIS YEARS MEETING. AS PRIME MINISTER WELL UNDERSTOOD, WE COULD NOT AT THIS POINT SPECIFY MAGNITUDE OR TYPE OF US ASSISTANCE BUT I COULD ASSURE HER WE WOULD DO EVERYTHING POSSIBLE TO PROVIDE OUR SHARE OF ECONOMIC ASSISTANCE.

10. LATER, AS WE WERE WALKING TO DOOR, PRIME MINISTER SUDDENLY ASKED: "WHAT ABOUT PL 480?" I EXPLAINED THERE WERE TWO ASPECTS OF PL 480 QUESTIONS. FIRST RELATED TO US FISCAL YEAR 1974, SECOND RELATED TO WHAT WE COULD DO DURING FY 75, AND THIS LATTER ASPECT WOULD BE ADDRESSED BY US AT AID GROUP MEETING. I RECALLED WE FORTUNATELY HAD BEEN ABLE PROVIDE 20,000 TONS OF WHEAT FLOUR THIS YEAR DESPITE OUR VERY TIGHT SUPPLY SITUATION BUT I COULD NOT HOLD OUT ANY ASSURANCE MORE PL 480 WOULD BE AVAILABLE THIS FISCAL YEAR. WITH REGARD TO NEXT YEAR, I UNDERSTOOD PL 480 SUPPLY SITUATION WOULD REMAIN VERY TIGHT BUT I WAS VERY HOPEFUL THAT WE WOULD BE ABLE PROVIDE SOME PL 480 ASSISTANCE, OR OTHER ECONOMIC ASSISTANCE, OR PERHAPS BOTH. PRIME MINISTER REITERATED HER HOPE THAT WE WOULD DO EVERYTHING WE COULD, NOTING WITH A SMILE THAT OPPOSITION LEADER J.R. JAYEWARDENE HAD LIMITED OFFICIAL USE

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PROMISED PUBLICLY THAT IF UNP CAME TO POWER HE WOULD PROVIDE EVERY CITIZEN WITH EIGHT POUNDS OF FOOD PER WEEK AND HAD SAID HE WOULD GET MUCH OF IT FROM UNITED STATES. I TOLD HER JAYEWARDENE HAD NOT CLEARED THAT STATEMENT WITH ME. VAN HOLLEN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: RICE, PETROLEUM, ECONOMIC ASSISTANCE, WHEAT, FOOD SHORTAGE, PL 480, ECONOMIC CONDITIONS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 15 FEB 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974COLOMB00466
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: COLOMBO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740230/aaaabbwj.tel
Line Count: 207
Locator: TEXT ON-LINE
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: COLOMBO 427 STATE 29824
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 20 JUN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 JUN 2002 by boyleja>; APPROVED <27 JUN 2002 by morefirh>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PRIME MINISTER DISCUSSES SRI LANKA'S ECONOMIC SITUATION
TAGS: EAID, ECON, ENRG, CE
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005